

27 August 2014

# Siam Future Development - SF

Earnings likely to bottom out in 2HFY14



## THAILAND | PROP | COMPANY UPDATE

BLOOMBERG SF TB | REUTERS SF.BK

- The second-half earnings look bright given rising consumer spending, narrower discounts offered to tenants, new tenants, and more revenue from percentage of revenue share model during the shopping season in 4QFY14.
- In 2QFY14, net profit grew 25.44% y-y and 21.48% q-q.
- We raise our FY14 earnings projection and thus pre-ex profit is expected to grow 17% and net profit up 40%. However, price target is revised down to Bt10. We still keep a 'BUY' rating on SF.

In 2QFY14, rental income rose 4% y-y and 11% q-q to Bt345mn while Mega Bangna profit sharing jumped 63% y-y and 35% q-q to Bt118mn – recurring profit of Bt46mn and gains from asset revaluation of Bt72mn. Net profit rose 25% y-y and 21% q-q to Bt179mn, as a result.

### How we view this

Earnings appeared to hit rock bottom in 2QFY14 and performance should improve in the second half of the year on the back of (1) more revenue from revenue sharing percentage given rising consumer confidence and higher sales in its retail tenants during the shopping season in 4QFY14, (2) narrower discounts offered to tenants, (3) new tenant at The Avenue Pattaya and J Avenue Sukhumvit.

For 2014 projection, we maintain our rental income estimate for SF but raise Mega Bangna profit sharing to Bt403mn and pre-ex profit (before gains on asset revaluation) to Bt779mn, up 17% y-y. The first-half pre-ex profit accounted for 49.87% of our full-year forecast and thus our projection will likely be achievable.

### Investment Action

We are growing optimistic about the second-half earnings performance but trim our gross margin estimate from 60% to 58% as we are cautious about higher electricity bill given Ft rate hikes and SF might not be able to increase rental rates to catch up with higher electricity supplies. Our price target thus is revised down to Bt10 (was Bt11). The current share price still look undervalued and we thus weigh in a 'BUY' rating on SF.

### Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (Btmn)	1,330	1,310	1,340	1,376	1,523
NPAT (Btmn)	709	1,401	512	717	842
NPAT, adj. (Btmn)	557	1,387	667	779	842
EPS (Bt)	0.94	1.85	0.67	0.94	1.10
EPS, adj. (Bt)	0.74	1.84	0.88	1.02	1.10
P/E (X),adj.	9.2	3.7	7.7	6.7	6.2
BVPS (Bt)	5.99	7.81	8.47	9.36	10.38
P/B (X)	1.1	0.9	0.8	0.7	0.7
DPS (Bt)	0.01	0.01	0.01	0.02	0.02
Div. Yield (%)	0.2%	0.2%	0.2%	0.2%	0.3%

Source: Bloomberg, PSR est.

\*\*Multiples and yields are based on latest closing price

Rating: **Buy**  
Unchanged

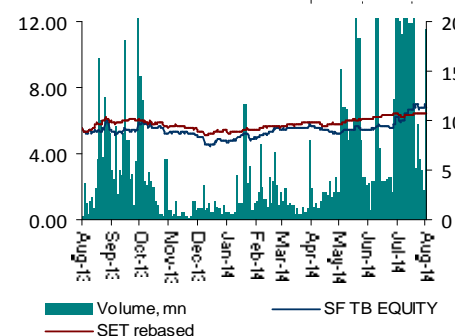
Target Price (Bt) **10.00**  
Forecast Dividend (Bt) 0.02  
Closing Price (Bt) 6.80  
Potential Upside **47.3%**

### Company Description

develop and manage open-aired shopping center or community mall.

### Company Data

Raw Beta (Past 2yrs weekly data) 1.20  
Market Cap. (USDmn / Btmn) 315 / 10068  
Ent. Value (USDmn / Btmn) 431 / 13800  
3MAverage Daily T/O (mn) 10.0  
Closing Px in 52 week range 4.44 - 7.10



Major Shareholders as of 3/4/14 (%)  
1. MAJOR CINEPLEX GROUP 23.5  
2. LUCKY SECURITIES, INC. 8.1  
3. Nopporn Witoonchart 6.2

### CG Report - 2013

(Good)

### Valuation Method

DCF (WACC: 9.0%; terminal g: 5%)

### Analyst

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#### **Earnings to bottom out in 2HFY14**

We foresee brighter prospects in the second half of the year after earnings hit rock bottom in 2QFY14, on the back of:

1. Easing politics and rising consumer confidence: Retailers will reap rewards of rising consumer spending with higher sales and thus SF will receive more revenue from percentage of revenue share model from its retail tenants, such as Starbucks, Major Cineplex, Big C, and Home Pro that situate in Mega Bangna.
2. Narrower discounts for retail tenants at The Avenue Changewattana: In 3QFY14, SF has narrowed down the 50% discounts it offered to retail tenants during the road blockage of Changewattana road in the first-half period.
3. New tenant at The Avenue Pattaya: The new tenant "Premium Outlet" will open a store in 4QFY14 that is expected to increase occupancy rate for the project to above 90% from earlier 83%.
4. Change of tenant at J Avenue: The leading fitness club "We Fitness" replaced Major Cineplex at J Avenue in 3QFY14, which turned out to be a good opportunity for SF to earn higher rental income given rising median rental rates.
5. Shopping season in final quarter of year: SF should benefit from seasonally stronger demand during the festive and shopping seasons in the final quarter of year.

#### **2QFY14 net profit up 25.44% y-y and 21.48% q-q**

In 2QFY14, rental income rose 4.25% y-y and 11.24% q-q to Bt345.30mn, contributing to gross profit of Bt196.78mn, up 5.38% y-y and 5.50% q-q. SG&A to rental income increased 13.64% y-y and 2.55% q-q to 17.49%, mostly due to higher utilities expenses. Profit sharing from its JV Mega Bangna jumped 62.65% y-y and 34.55% q-q to Bt118.38mn, breaking down to recurring profit of Bt46.34mn and gains from asset revaluation of Bt72.04mn. Net profit thus grew 25.44% y-y and 21.48% q-q to Bt179.28mn or Bt0.12/share, up 11.50% y-y and 7.98% q-q.

#### **FY14 outlook upgraded but likely achievable still**

We maintain our FY14 rental income of Bt1,343mn (excluding Mega Bangna) but raise total revenue estimate from earlier Bt1,373mn to Bt1,376mn (up 2.7% y-y) and Mega Bangna profit sharing from Bt335mn to Bt403mn. Of this, recurring profit and gains from asset revaluation are estimated Bt181mn and Bt222mn. Pre-ex profit (before gains on asset revaluation) would increase 17% to Bt779mn and net profit would increase by a whopping 40% to Bt717mn. In 1HFY14, pre-ex profit totaled Bt388.46mn, accounting for 49.87% of our full-year forecast, and net profit represented 45.59% of our projection. Our forecast thus looks justified.

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### **'BUY' maintained with Bt10 price target**

We are growing optimistic about the second-half earnings performance but trim our gross margin estimate from 60% to 58% as we are cautious about higher electricity bill given Ft rate hikes and SF might not be able to increase rental rates to catch up with higher electricity supplies. Despite the narrower gross margin estimate, we still see the bottom-line growth this year and thus weigh in a 'BUY' rating on SF. We incorporate DCF valuations based on a discount rate of 9% and terminal growth rate of 5%, arriving at price target of Bt10 (Bt5.9 for SF and Bt4.1 for Mega Bangna).

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Income Statement (Btmn)</b>					
Revenue	1,330	1,310	1,340	1,376	1,523
EBITDA	631	431	580	594	647
Depreciation & Amortisation	17	14	11	11	10
EBIT	614	417	568	583	637
Net Finance (Expense)/Inc	(50)	(65)	(77)	(75)	(70)
Other items	0	0	0	0	0
Associates & JVs	28	1,081	292	403	420
Exceptional items	152	14	(155)	(62)	0
<b>Profit Before Tax</b>	<b>564</b>	<b>352</b>	<b>491</b>	<b>509</b>	<b>567</b>
Taxation	(32)	42	84	101	113
<b>Profit After Tax</b>	<b>596</b>	<b>310</b>	<b>407</b>	<b>408</b>	<b>453</b>
Non-controlling Interest	67	4	32	32	31
<b>Net Income, reported</b>	<b>709</b>	<b>1,401</b>	<b>512</b>	<b>717</b>	<b>842</b>
<b>Net Income, adj.</b>	<b>557</b>	<b>1,387</b>	<b>667</b>	<b>779</b>	<b>842</b>

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Per share data (Bt)</b>					
EPS, reported	0.94	1.85	0.67	0.94	1.10
EPS, adj.	0.74	1.84	0.88	1.02	1.10
DPS	0.01	0.01	0.01	0.02	0.02
BVPS	5.99	7.81	8.47	9.36	10.38

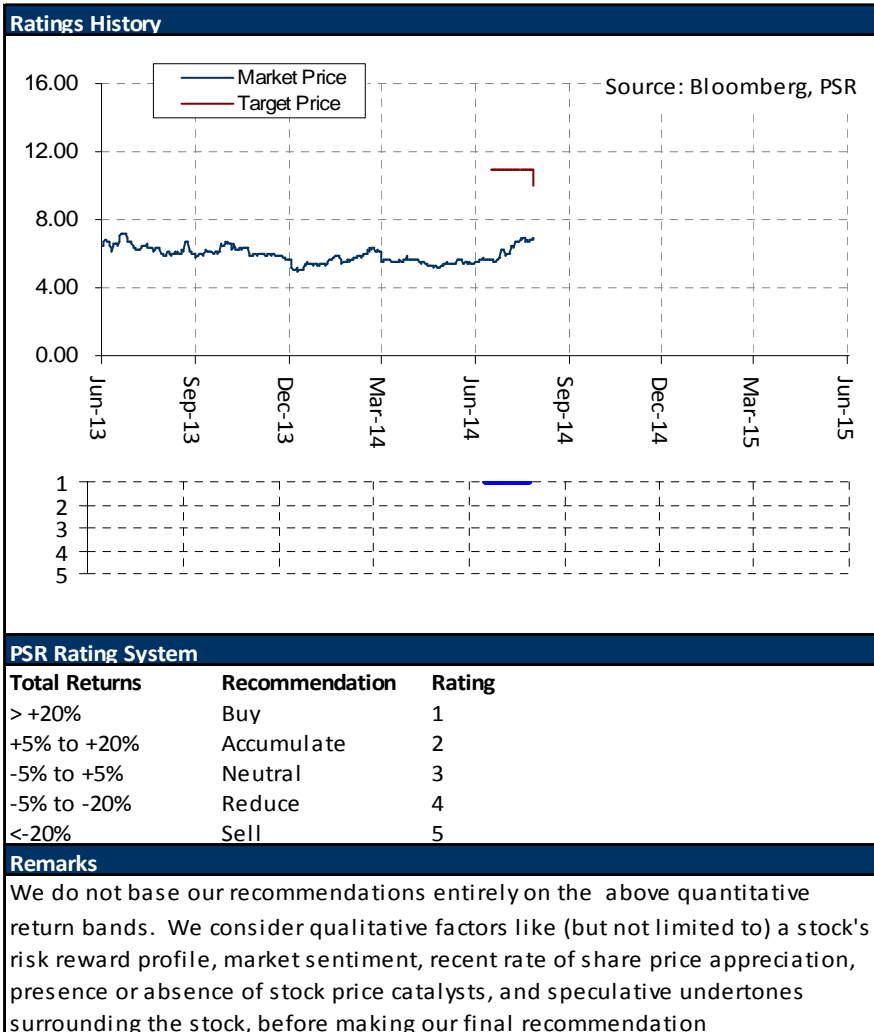
FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Cashflow Statements (Btmn)</b>					
CFO					
PBT	744	1,447	628	835	955
Adjustments	(146)	(956)	(162)	(377)	(460)
WC changes	(10)	(191)	(259)	(14)	13
Cash generated from ops	588	300	207	444	509
Others	(124)	(128)	(53)	(111)	(140)
<b>Cashflow from ops</b>	<b>464</b>	<b>172</b>	<b>154</b>	<b>332</b>	<b>369</b>
CFI					
CAPEX, net	(168)	(74)	(42)	(267)	(412)
Others	448	32	(323)	99	207
<b>Cashflow from investments</b>	<b>281</b>	<b>(42)</b>	<b>(366)</b>	<b>(169)</b>	<b>(205)</b>
CFF					
Share issuance	29	15	0	(0)	(0)
Loans, net of repayments	(165)	(157)	191	(140)	(139)
Dividends	(576)	(14)	(16)	(18)	(23)
Others	0	0	0	0	0
<b>Cashflow from financing</b>	<b>(712)</b>	<b>(156)</b>	<b>175</b>	<b>(158)</b>	<b>(162)</b>
<b>Net change in cash</b>	<b>33</b>	<b>(27)</b>	<b>(37)</b>	<b>5</b>	<b>2</b>
Effects of exchange rates	0	0	0	0	0
<b>CCE, end</b>	<b>87</b>	<b>61</b>	<b>23</b>	<b>29</b>	<b>31</b>

Source: Company Data, PSR est

\*\*Based on latest closing price

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Balance Sheet (Btmn)</b>					
Cash	87	61	23	29	31
Investments	55	25	49	60	60
Accounts Receivables	122	87	95	100	108
Inventories	0	0	0	0	0
Others	147	216	222	228	228
<b>Total current assets</b>	<b>412</b>	<b>388</b>	<b>390</b>	<b>417</b>	<b>426</b>
PPE	35	30	28	38	40
Intangibles	25	23	22	21	21
Associates & JVs	1,487	2,569	3,159	3,478	3,717
Investments	7,349	7,607	7,611	7,840	8,240
Others	1,109	813	793	763	743
<b>Total non-current assets</b>	<b>10,006</b>	<b>11,042</b>	<b>11,613</b>	<b>12,139</b>	<b>12,760</b>
<b>Total Assets</b>	<b>10,418</b>	<b>11,430</b>	<b>12,003</b>	<b>12,555</b>	<b>13,187</b>
Short term loans	155	91	200	60	170
Accounts Payables	8	9	10	10	11
Others	604	1,762	959	948	1,199
<b>Total current liabilities</b>	<b>766</b>	<b>1,862</b>	<b>1,169</b>	<b>1,018</b>	<b>1,380</b>
Long term loans	1,861	573	1,448	1,448	948
Others	3,292	3,092	2,956	2,943	2,893
<b>Total non-current liabilities</b>	<b>5,153</b>	<b>3,665</b>	<b>4,403</b>	<b>4,392</b>	<b>3,842</b>
Non-controlling interest	5,919	5,527	5,572	5,409	5,222
<b>Shareholder Equity</b>	<b>4,498</b>	<b>5,903</b>	<b>6,430</b>	<b>7,146</b>	<b>7,965</b>

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.**	9.2	3.7	7.7	6.7	6.2
P/B (X), adj.**	1.1	0.9	0.8	0.7	0.7
EV/EBITDA (X), adj.	13.4	20.5	15.6	11.2	9.8
Dividend Yield (%)	0.2%	0.2%	0.2%	0.2%	0.3%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-33.7%	-1.5%	2.3%	2.7%	10.7%
EBITDA	-40.7%	-31.7%	34.3%	2.5%	8.9%
EBIT	-41.0%	-32.1%	36.2%	2.7%	9.2%
Net Income, adj.	28.2%	149.1%	-51.9%	16.8%	8.1%
<b>Margins</b>					
EBITDA margin	47.5%	32.9%	43.2%	43.2%	42.5%
EBIT margin	46.2%	31.9%	42.4%	42.4%	41.8%
<b>Net Profit Margin</b>	<b>44.8%</b>	<b>23.7%</b>	<b>30.3%</b>	<b>29.6%</b>	<b>29.8%</b>
<b>Key Ratios</b>					
ROE (%)	16.2%	26.9%	8.3%	10.6%	11.1%
ROA (%)	6.8%	12.8%	4.4%	5.8%	6.5%
Net Debt/(Cash)	1,929	603	1,624	1,480	1,088
Net Gearing (X)	0.56	0.48	0.46	0.43	0.39



Industry Group Name	Sector Name	Sector Index
Agro & Food Industry [AGRO]	Agribusiness	AGRI
	Food & Beverage	FOOD
Consumer Products [CONSUMP]	Fashion	FASHION
	Home & Office Products	HOME
	Personal Products & Pharmaceuticals	PERSON
Financials [FINCIAL]	Banking	BANK
	Finance & Securities	FIN
	Insurance	INSUR
Industrials [INDUS]	Automotive	AUTO
	Industrail Materials & Machinery	IMM
	Packaging	PKG
	Paper & Printing Materials	PAPER
	Petrochemicals & Chemicals	PETRO
	Steel	STEEL
Property & Construction [PROPCON]	Construction Materials	CONMAT
	Construction Services	CONS
	Property Development	PROP
	Property Fund & REITs	FP&REIT
Resources [RESOURC]	Energy & Utilities	ENERG
	Mining	MINE
Services [SERVICE]	Commerce	COMM
	Media & Publishing	MEDIA
	Health Care Services	HEALTH
	Tourism & Leisure	TOURISM
	Professionsl Services	PROF
	Transportation & Logistics	TRANS
Technology [TECH]	Electronic Components	ETRON
	Information & Communication Technology	ICT

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Naree Apisawaittakan	Securities Investment Analyst #17971	662 635 1700#484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment Analyst #17970	662 635 1700#483	Transportation, Media & Publishing, Tourism
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<b>Score Range</b>	<b>Number of Logo</b>
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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